State of Arizona Senate Forty-seventh Legislature First Regular Session 2005

CHAPTER 212

SENATE BILL 1472

AN ACT

AMENDING TITLE 23, CHAPTER 3, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 4; AMENDING SECTION 23-614, ARIZONA REVISED STATUTES; RELATING TO PROFESSIONAL EMPLOYER ORGANIZATIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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Be it enacted by the Legislature of the State of Arizona:

Section 1. Title 23, chapter 3, Arizona Revised Statutes, is amended by adding article 4, to read:

ARTICLE 4. PROFESSIONAL EMPLOYER ORGANIZATIONS

23-561. Definitions

IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

- 1. "ADMINISTRATIVE FEE" MEANS THE FEE THAT IS CHARGED TO A CLIENT BY A PROFESSIONAL EMPLOYER ORGANIZATION FOR PROFESSIONAL EMPLOYER SERVICES. ADMINISTRATIVE FEE DOES NOT INCLUDE ANY AMOUNT OF THE FEE THAT IS APPLIED TO WAGES, SALARIES, BENEFITS, WORKERS' COMPENSATION, PAYROLL TAXES, WITHHOLDING OR OTHER ASSESSMENTS THAT THE PROFESSIONAL EMPLOYER ORGANIZATION PAYS TO OR ON BEHALF OF COVERED EMPLOYEES UNDER A PROFESSIONAL EMPLOYER AGREEMENT.
- 2. "CLIENT" MEANS A PERSON WHO CONTRACTS WITH A PROFESSIONAL EMPLOYER ORGANIZATION UNDER A PROFESSIONAL EMPLOYER AGREEMENT. A CLIENT DOES NOT INCLUDE A PROFESSIONAL EMPLOYER ORGANIZATION.
- 3. "CO-EMPLOYER" MEANS A PROFESSIONAL EMPLOYER ORGANIZATION OR A CLIENT.
 - 4. "CO-EMPLOYMENT RELATIONSHIP" MEANS ALL OF THE FOLLOWING:
- (a) A RELATIONSHIP BETWEEN CO-EMPLOYERS IF THE RIGHTS, DUTIES AND OBLIGATIONS OF AN EMPLOYER THAT ARISE OUT OF AN EMPLOYMENT RELATIONSHIP ARE ALLOCATED BETWEEN CO-EMPLOYERS SUBJECT TO A PROFESSIONAL EMPLOYER AGREEMENT AND THIS ARTICLE, AND THE RELATIONSHIP IS INTENDED TO BE AN ONGOING RELATIONSHIP AND NOT A TEMPORARY OR PROJECT SPECIFIC RELATIONSHIP.
- (b) A RELATIONSHIP BETWEEN A PROFESSIONAL EMPLOYER ORGANIZATION AND A COVERED EMPLOYEE THAT IS SUBJECT TO A PROFESSIONAL EMPLOYER AGREEMENT AND THIS ARTICLE, THAT ALLOWS THE PROFESSIONAL EMPLOYER ORGANIZATION TO ENFORCE THOSE RIGHTS AND THAT REQUIRES THE PROFESSIONAL EMPLOYER ORGANIZATION TO PERFORM THOSE DUTIES AND OBLIGATIONS ALLOCATED TO THE PROFESSIONAL EMPLOYER ORGANIZATION BY THE PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE.
- (c) A RELATIONSHIP BETWEEN A CLIENT AND A COVERED EMPLOYEE THAT IS SUBJECT TO A PROFESSIONAL EMPLOYER AGREEMENT AND THIS ARTICLE, THAT ALLOWS THE CLIENT TO ENFORCE THOSE RIGHTS AND REQUIRES THE CLIENT TO PERFORM THOSE EMPLOYER OBLIGATIONS ALLOCATED TO THE CLIENT BY THE PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE OR THAT ARE NOT OTHERWISE ALLOCATED BY THE PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE.
 - 5. "COVERED EMPLOYEE":
- (a) MEANS AN INDIVIDUAL WHO HAS A CO-EMPLOYMENT RELATIONSHIP WITH A PROFESSIONAL EMPLOYER ORGANIZATION AND A CLIENT, IF THE INDIVIDUAL:
- (i) HAS EXECUTED A WRITTEN NOTICE OF THE CO-EMPLOYMENT RELATIONSHIP WITH A PROFESSIONAL EMPLOYER ORGANIZATION.
- (ii) IS A PARTY TO A CO-EMPLOYMENT RELATIONSHIP WITH A PROFESSIONAL EMPLOYER ORGANIZATION AND A CLIENT.
- (iii) IS SUBJECT TO A PROFESSIONAL EMPLOYER AGREEMENT UNDER THIS ARTICLE.

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- (b) INCLUDES AN INDIVIDUAL WHO IS AN OFFICER, DIRECTOR, SHAREHOLDER, PARTNER OR MANAGER OF A CLIENT IF THE PROFESSIONAL EMPLOYER AGREEMENT INCLUDES THE INDIVIDUAL AS A COVERED EMPLOYEE AND THE INDIVIDUAL ACTS AS A MANAGER OR PERFORMS SERVICES FOR THE CLIENT.
- 6. "PERSON" MEANS ANY INDIVIDUAL, PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY OR OTHER LEGALLY RECOGNIZED ENTITY.
- 7. "PROFESSIONAL EMPLOYER AGREEMENT" MEANS A WRITTEN CONTRACT BETWEEN A PROFESSIONAL EMPLOYER ORGANIZATION AND A CLIENT THAT PROVIDES FOR:
 - (a) THE CO-EMPLOYMENT OF COVERED EMPLOYEES.
- (b) THE ALLOCATION AND SHARING BETWEEN THE CLIENT AND THE PROFESSIONAL EMPLOYER ORGANIZATION OF EMPLOYER RESPONSIBILITIES WITH RESPECT TO A COVERED EMPLOYEE, INCLUDING HIRING, FIRING AND DISCIPLINARY RESPONSIBILITIES.
 - (c) ANY OTHER RESPONSIBILITY REQUIRED BY THIS ARTICLE.
 - 8. "PROFESSIONAL EMPLOYER ORGANIZATION":
- (a) MEANS ANY PERSON WHO IS ENGAGED IN THE BUSINESS OF PROVIDING PROFESSIONAL EMPLOYER SERVICES WHETHER OR NOT THE PERSON USES THE TERM PROFESSIONAL EMPLOYER ORGANIZATION, STAFF LEASING COMPANY, REGISTERED STAFF LEASING COMPANY, EMPLOYEE LEASING COMPANY OR ANY OTHER NAME.
 - (b) DOES NOT INCLUDE:
- (i) ANY PERSON WHOSE PRINCIPAL BUSINESS ACTIVITY IS NOT ENTERING INTO PROFESSIONAL EMPLOYER AGREEMENTS AND WHO DOES NOT HOLD ITSELF OUT AS A PROFESSIONAL EMPLOYER ORGANIZATION.
- (ii) A PERSON WHO SHARES EMPLOYEES WITH A COMMONLY OWNED COMPANY AS DEFINED BY SECTIONS 414(b) AND 414(c) OF THE INTERNAL REVENUE CODE.
- (iii) ARRANGEMENTS BY A PERSON WHO ASSUMES RESPONSIBILITY FOR THE PRODUCT THAT IS PRODUCED OR SERVICE THAT IS PERFORMED BY THE PERSON AND WHO RETAINS AND EXERCISES THE PRIMARY DISCRETION AND CONTROL OVER THE WORK PERFORMED BY THE PERSON WHOSE SERVICES ARE SUPPLIED UNDER THE ARRANGEMENT.
- (iv) A PERSON WHO HIRES TEMPORARY HELP FOR THE PURPOSE OF SUPPORTING OR SUPPLEMENTING A CLIENT'S EMPLOYEES.
- 9. "PROFESSIONAL EMPLOYER SERVICES" MEANS THE SERVICE OF ENTERING INTO A CO-EMPLOYMENT RELATIONSHIP UNDER THIS ARTICLE IN WHICH ALL OR A MAJORITY OF THE EMPLOYEES WHO PROVIDE SERVICES TO A CLIENT OR TO A DIVISION OR WORK UNIT OF THE CLIENT ARE COVERED EMPLOYEES.
- 10. "REGISTRANT" MEANS A PROFESSIONAL EMPLOYER ORGANIZATION THAT IS REGISTERED UNDER THIS ARTICLE.
 - 11. "TEMPORARY HELP SERVICES" MEANS SERVICES BY A PERSON CONSISTING OF:
 - (a) RECRUITING AND HIRING THE PERSON'S OWN EMPLOYEES.
- (b) FINDING OTHER ORGANIZATIONS THAT NEED THE SERVICES OF EMPLOYEES WHO ARE RECRUITED AND HIRED BY THE PERSON.
- (c) ASSIGNING EMPLOYEES TO PERFORM WORK FOR OTHER ORGANIZATIONS TO SUPPORT THAT ORGANIZATION'S WORKFORCES, INCLUDING COVERING EMPLOYEE ABSENCES, SKILL SHORTAGES OR SEASONAL WORKLOADS OR PERFORMING SPECIAL ASSIGNMENTS OR PROJECTS.

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 (d) CUSTOMARILY ATTEMPTING TO REASSIGN THE EMPLOYEES TO OTHER ORGANIZATIONS WHEN THE EMPLOYEES COMPLETE EACH ASSIGNMENT.

23-562. Professional employer agreements; rights; notice

- A. A PROFESSIONAL EMPLOYER AGREEMENT SHALL:
- 1. GOVERN THE CO-EMPLOYMENT RELATIONSHIP BETWEEN THE CLIENT AND THE PROFESSIONAL EMPLOYER ORGANIZATION AND BETWEEN EACH CO-EMPLOYER AND EACH COVERED EMPLOYEE.
- 2. RESERVE TO THE CLIENT THE RIGHT TO DIRECT AND CONTROL COVERED EMPLOYEES TO THE EXTENT NECESSARY TO CONDUCT THE CLIENT'S BUSINESS AND TO DISCHARGE ANY FIDUCIARY RESPONSIBILITY OR TO COMPLY WITH ANY LICENSING REQUIREMENT THAT APPLIES TO THE CLIENT OR A COVERED EMPLOYEE.
- 3. REQUIRE THE PROFESSIONAL EMPLOYER ORGANIZATION TO PAY THE WAGES OF COVERED EMPLOYEES, TO WITHHOLD, COLLECT, REPORT AND REMIT PAYROLL-RELATED AND UNEMPLOYMENT TAXES AND TO MAKE PAYMENT FOR EMPLOYEE BENEFITS FOR COVERED EMPLOYEES. FOR THE PURPOSES OF THIS PARAGRAPH, WAGES DO NOT INCLUDE OBLIGATIONS BETWEEN A CLIENT AND A COVERED EMPLOYEE THAT EXCEED A COVERED EMPLOYEE'S SALARY, BONUSES, COMMISSIONS, SEVERANCE PAY, DEFERRED COMPENSATION, PROFIT SHARING OR VACATION, SICK OR OTHER PAID TIME OFF PAY UNLESS THE PROFESSIONAL EMPLOYER ORGANIZATION EXPRESSLY AGREES TO ASSUME LIABILITY FOR THE ADDITIONAL OBLIGATIONS IN THE PROFESSIONAL EMPLOYER AGREEMENT.
- 4. PERMIT BOTH THE PROFESSIONAL EMPLOYER ORGANIZATION AND CLIENT TO HAVE A RIGHT TO HIRE, TERMINATE AND DISCIPLINE COVERED EMPLOYEES.
- 5. SPECIFY WHETHER THE CLIENT OR THE PROFESSIONAL EMPLOYER ORGANIZATION WILL PURCHASE AND MAINTAIN THE WORKERS' COMPENSATION POLICY FOR COVERED EMPLOYEES FROM A CARRIER THAT IS LICENSED TO CONDUCT BUSINESS IN THIS STATE. IF THE PROFESSIONAL EMPLOYER ORGANIZATION PURCHASES THE WORKERS' COMPENSATION POLICY, THE PROFESSIONAL EMPLOYER ORGANIZATION SHALL MAINTAIN AND, IF REQUESTED BY THE CLIENT ON TERMINATION OF THE AGREEMENT, BE ABLE TO PROVIDE TO THE CLIENT RECORDS REGARDING THE LOSS EXPERIENCE RELATED TO THE WORKERS' COMPENSATION INSURANCE THAT IS PROVIDED TO THE COVERED EMPLOYEES.
 - B. A PROFESSIONAL EMPLOYER AGREEMENT SHALL NOT:
- 1. AFFECT, MODIFY OR AMEND ANY COLLECTIVE BARGAINING AGREEMENT OR ANY RIGHTS OR OBLIGATIONS OF ANY CLIENT, PROFESSIONAL EMPLOYER ORGANIZATION OR COVERED EMPLOYEE THAT ARE REQUIRED UNDER THE FEDERAL NATIONAL LABOR RELATIONS ACT, THE FEDERAL RAILWAY LABOR ACT OR THIS TITLE.
- 2. AFFECT, MODIFY OR AMEND ANY STATE, LOCAL OR FEDERAL LICENSING, REGISTRATION OR CERTIFICATION THAT IS REQUIRED BY ANY CLIENT OR COVERED EMPLOYEE.
- 3. WITH RESPECT TO A BID, CONTRACT, PURCHASE ORDER OR AGREEMENT ENTERED INTO WITH THIS STATE OR A POLITICAL SUBDIVISION OF THIS STATE, AFFECT THE STATUS OF A CLIENT'S COMPANY AS A SMALL, MINORITY-OWNED, DISADVANTAGED OR WOMAN-OWNED BUSINESS ENTERPRISE OR AS A HISTORICALLY UNDERUTILIZED BUSINESS BECAUSE THE CLIENT ENTERED INTO A PROFESSIONAL EMPLOYMENT AGREEMENT WITH A PROFESSIONAL EMPLOYER ORGANIZATION.

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- 4. DIMINISH, ABOLISH OR REMOVE ANY RIGHTS OF COVERED EMPLOYEES TO ANY CLIENTS OR OBLIGATIONS OF CLIENTS TO ANY COVERED EMPLOYEES THAT EXISTED BEFORE THE EFFECTIVE DATE OF A PROFESSIONAL EMPLOYER AGREEMENT.
- 5. TERMINATE AN EMPLOYMENT RELATIONSHIP THAT EXISTED BEFORE THE EFFECTIVE DATE OF A PROFESSIONAL EMPLOYER AGREEMENT.
- 6. ESTABLISH NEW OR ADDITIONAL ENFORCEABLE RIGHTS OF A COVERED EMPLOYEE AGAINST A PROFESSIONAL EMPLOYER ORGANIZATION THAT ARE NOT SPECIFICALLY ALLOCATED TO THE PROFESSIONAL EMPLOYER ORGANIZATION UNDER THE PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE.
- C. UNLESS SPECIFICALLY PROVIDED IN A PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE:
- 1. THE CLIENT SHALL PERFORM ALL RESPONSIBILITIES THAT OTHERWISE APPLY TO AN EMPLOYER IN AN EMPLOYMENT RELATIONSHIP.
- 2. THE PROFESSIONAL EMPLOYER ORGANIZATION SHALL PERFORM ONLY THE RESPONSIBILITIES THAT ARE SPECIFICALLY REQUIRED UNDER THIS ARTICLE OR A PROFESSIONAL EMPLOYER AGREEMENT. THE RIGHTS, DUTIES AND OBLIGATIONS OF A PROFESSIONAL EMPLOYER ORGANIZATION AS A CO-EMPLOYER WITH RESPECT TO ANY COVERED EMPLOYEE ARE LIMITED TO THE RESPONSIBILITIES THAT ARE CONTAINED IN THE PROFESSIONAL EMPLOYER AGREEMENT AND THAT ARISE DURING THE TERM OF CO-EMPLOYMENT BY THE PROFESSIONAL EMPLOYER ORGANIZATION FOR THE COVERED EMPLOYEES.
- D. EVERY PROFESSIONAL EMPLOYER ORGANIZATION THAT ENTERS INTO A PROFESSIONAL EMPLOYER AGREEMENT SHALL PROVIDE NOTICE TO EACH COVERED EMPLOYEE WHO IS AFFECTED BY THE AGREEMENT. THE NOTICE MAY BE INCLUDED IN THE FORM OF THE EMPLOYMENT DOCUMENTS THAT A COVERED EMPLOYEE COMPLETES FOR THE PROFESSIONAL EMPLOYER ORGANIZATION.
 - 23-563. Registration requirements; violation; rules; fees
- A. EVERY PROFESSIONAL EMPLOYER ORGANIZATION THAT PROVIDES PROFESSIONAL EMPLOYER SERVICES IN THIS STATE SHALL REGISTER WITH THE SECRETARY OF STATE. THE SECRETARY OF STATE SHALL MAINTAIN A LIST OF ALL REGISTRANTS UNDER THIS SECTION. THE SECRETARY OF STATE MAY PRESCRIBE FORMS NECESSARY FOR THE ADMINISTRATION OF THIS SECTION.
- B. EVERY PROFESSIONAL EMPLOYER ORGANIZATION THAT REGISTERS UNDER THIS SECTION SHALL PROVIDE THE SECRETARY OF STATE THE FOLLOWING:
- 1. THE NAME OR NAMES UNDER WHICH THE PROFESSIONAL EMPLOYER ORGANIZATION CONDUCTS BUSINESS.
- 2. THE ADDRESS OF THE PRINCIPAL PLACE OF BUSINESS OF THE PROFESSIONAL EMPLOYER ORGANIZATION AND THE ADDRESS OF EACH OFFICE THAT THE PROFESSIONAL EMPLOYER ORGANIZATION MAINTAINS IN THIS STATE.
- 3. THE PROFESSIONAL EMPLOYER ORGANIZATION'S TAXPAYER OR EMPLOYER IDENTIFICATION NUMBER.
- 4. A LIST BY STATE OF EACH NAME UNDER WHICH THE PROFESSIONAL EMPLOYER
 ORGANIZATION HAS OPERATED IN THE PRECEDING FIVE YEARS, INCLUDING ANY
 ALTERNATIVE NAMES, NAMES OF PREDECESSORS AND, IF KNOWN, NAMES OF SUCCESSOR
 BUSINESS ENTITIES.

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- 5. A STATEMENT OF OWNERSHIP THAT INCLUDES THE NAMES AND BUSINESS EXPERIENCE OF EVERY PERSON WHO OWNS OR CONTROLS TWENTY-FIVE PER CENT OR MORE OF THE EQUITY INTEREST OF THE PROFESSIONAL EMPLOYER ORGANIZATION.
- 6. A STATEMENT OF MANAGEMENT THAT INCLUDES THE NAMES AND BUSINESS EXPERIENCE OF ANY PERSON WHO SERVES AS PRESIDENT OR CHIEF EXECUTIVE OFFICER OF THE PROFESSIONAL EMPLOYER ORGANIZATION OR ANY OTHER PERSON WHO HAS THE AUTHORITY TO ACT AS A SENIOR EXECUTIVE OFFICER OF THE PROFESSIONAL EMPLOYER ORGANIZATION.
- 7. A FINANCIAL STATEMENT THAT SETS FORTH THE FINANCIAL CONDITIONS OF THE PROFESSIONAL EMPLOYER ORGANIZATION, THAT IS PREPARED WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND THAT IS COMPILED, REVIEWED OR AUDITED BY AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT. THE FINANCIAL STATEMENT SHALL BE DATED NO EARLIER THAN ONE HUNDRED EIGHTY DAYS BEFORE THE DATE ON WHICH THE FINANCIAL STATEMENT IS FILED WITH THE SECRETARY OF STATE. A PROFESSIONAL EMPLOYER ORGANIZATION MAY SUBMIT COMPILED, REVIEWED OR AUDITED FINANCIAL STATEMENTS.
- 8. A STATEMENT BY A CERTIFIED PROFESSIONAL ACCOUNTANT THAT THE APPLICANT IS CURRENT WITH OBLIGATIONS THAT RELATE TO PAYROLL, PAYROLL-RELATED TAXES, WORKERS' COMPENSATION INSURANCE PREMIUMS FOR COVERED EMPLOYEES AND EMPLOYEE BENEFITS FOR THE PREVIOUS FOUR CALENDAR QUARTERS.
- 9. A CERTIFICATION THAT IS SIGNED BY THE CHIEF EXECUTIVE OFFICER OF THE PROFESSIONAL EMPLOYER ORGANIZATION AND THAT STATES THE SUBMITTED FINANCIAL STATEMENT IS A TRUE AND ACCURATE REPRESENTATION OF THE FINANCIAL STATUS OF THE PROFESSIONAL EMPLOYER ORGANIZATION AS OF THE DATE THE FINANCIAL STATEMENT WAS PREPARED.
- C. EXCEPT FOR PROPER ADMINISTRATIVE PURPOSES, ALL RECORDS, REPORTS, FINANCIAL STATEMENTS AND OTHER INFORMATION THAT IS OBTAINED FROM A PROFESSIONAL EMPLOYER ORGANIZATION UNDER THIS ARTICLE BY THE SECRETARY OF STATE ARE CONFIDENTIAL AND ARE NOT SUBJECT TO INSPECTION PURSUANT TO TITLE 39, CHAPTER 1, ARTICLE 2.

23-564. <u>Initial registration: fee</u>

- A. BEGINNING MARCH 1, 2006, EVERY PROFESSIONAL EMPLOYER ORGANIZATION IN THIS STATE SHALL FILE AN INITIAL REGISTRATION WITH THE SECRETARY OF STATE. THE INITIAL REGISTRATION SHALL REMAIN VALID UNTIL THE PROFESSIONAL EMPLOYER ORGANIZATION'S FIRST COMPLETED FISCAL YEAR THAT IS MORE THAN ONE YEAR AFTER MARCH 1, 2006.
- B. IF A PROFESSIONAL EMPLOYER ORGANIZATION IS NOT CONDUCTING BUSINESS IN THIS STATE BEFORE MARCH 1, 2006, THE PROFESSIONAL EMPLOYER ORGANIZATION SHALL FILE AN INITIAL REGISTRATION WITH THE SECRETARY OF STATE BEFORE CONDUCTING BUSINESS IN THIS STATE.
- C. EVERY PROFESSIONAL EMPLOYER ORGANIZATION SHALL PAY AN INITIAL REGISTRATION FEE ESTABLISHED BY THE SECRETARY OF STATE WHEN AN INITIAL REGISTRATION IS FILED WITH THE SECRETARY OF STATE.
- D. THE SECRETARY OF STATE SHALL DETERMINE BY RULE THE FEES TO BE CHARGED UNDER THIS ARTICLE.

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23-565. Renewal registration: fee

WITHIN ONE HUNDRED TWENTY DAYS OF A REGISTRANT'S COMPLETED FISCAL YEAR, EACH REGISTRANT SHALL FILE A RENEWAL REGISTRATION WITH THE SECRETARY OF STATE. THE RENEWAL REGISTRATION SHALL INCLUDE ANY CHANGES TO THE INFORMATION THAT WAS FILED IN THE REGISTRANT'S MOST RECENT REGISTRATION. EACH PROFESSIONAL EMPLOYER ORGANIZATION SHALL PAY A RENEWAL REGISTRATION FEE ESTABLISHED BY THE SECRETARY OF STATE WHEN THE RENEWAL REGISTRATION IS FILED WITH THE SECRETARY OF STATE. EACH RENEWAL REGISTRATION SHALL INCLUDE THE INFORMATION REQUIRED UNDER SECTION 23-563, SUBSECTION B, PARAGRAPHS 7, 8 AND 9.

23-566. Group registration

ONLY FOR PURPOSES OF REGISTRATION WITH THE SECRETARY OF STATE, IF TWO OR MORE PROFESSIONAL EMPLOYER ORGANIZATIONS ARE HELD UNDER COMMON CONTROL OF ANOTHER PERSON OR PERSONS WHO ARE ACTING IN CONCERT, THE PROFESSIONAL EMPLOYER ORGANIZATIONS MAY FILE A REGISTRATION UNDER THIS ARTICLE AS A PROFESSIONAL EMPLOYER ORGANIZATION GROUP. A PROFESSIONAL EMPLOYER ORGANIZATION GROUP MAY SATISFY THE REPORTING AND FINANCIAL REQUIREMENTS UNDER THIS ARTICLE ON A CONSOLIDATED BASIS.

23-567. <u>Limited registration: fee</u>

- A. NOTWITHSTANDING SECTION 23-564 OR 23-565, A PROFESSIONAL EMPLOYER ORGANIZATION MAY FILE A LIMITED REGISTRATION WITH THE SECRETARY OF STATE ON A FORM PRESCRIBED BY THE SECRETARY OF STATE IF ALL OF THE FOLLOWING APPLY:
- 1. THE PROFESSIONAL EMPLOYER ORGANIZATION IS DOMICILED OUTSIDE OF THIS STATE AND IS LICENSED OR REGISTERED AS A PROFESSIONAL EMPLOYER ORGANIZATION IN ANOTHER STATE THAT HAS REQUIREMENTS THAT ARE SUBSTANTIALLY SIMILAR TO THE REQUIREMENTS UNDER THIS ARTICLE.
- 2. THE PROFESSIONAL EMPLOYER ORGANIZATION DOES NOT MAINTAIN AN OFFICE IN THIS STATE.
- 3. THE PROFESSIONAL EMPLOYER ORGANIZATION DOES NOT DIRECTLY SOLICIT CLIENTS LOCATED OR DOMICILED IN THIS STATE.
- 4. THE PROFESSIONAL EMPLOYER ORGANIZATION DOES NOT HAVE MORE THAN FIFTY COVERED EMPLOYEES WHO ARE EMPLOYED OR DOMICILED IN THIS STATE ON ANY GIVEN DAY.
- B. A LIMITED REGISTRATION SHALL BE VALID FOR ONE YEAR AND SHALL BE RENEWED ANNUALLY WITHIN ONE HUNDRED TWENTY DAYS OF A REGISTRANT'S COMPLETED FISCAL YEAR. EACH PROFESSIONAL EMPLOYER ORGANIZATION SHALL PAY A LIMITED REGISTRATION FEE ESTABLISHED BY THE SECRETARY OF STATE WHEN THE LIMITED REGISTRATION IS FILED OR RENEWED WITH THE SECRETARY OF STATE.
- C. IF A PROFESSIONAL EMPLOYER ORGANIZATION SEEKS TO FILE A LIMITED REGISTRATION WITH THE SECRETARY OF STATE, THE PROFESSIONAL EMPLOYER ORGANIZATION SHALL PROVIDE THE SECRETARY OF STATE WITH SUFFICIENT INFORMATION AND DOCUMENTATION THAT INDICATES THAT THE PROFESSIONAL EMPLOYER ORGANIZATION QUALIFIES FOR A LIMITED REGISTRATION.

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23-568. Alternative registration; fee

A. THE SECRETARY OF STATE MAY ESTABLISH BY RULE AN ALTERNATIVE REGISTRATION THAT ACCEPTS AN AFFIDAVIT OR CERTIFICATION OF A BONDED, INDEPENDENT AND QUALIFIED ASSURANCE ORGANIZATION THAT CERTIFIES THE QUALIFICATIONS OF A PROFESSIONAL EMPLOYER ORGANIZATION UNDER SECTIONS 23-564, 23-565 OR 23-566. THE SECRETARY OF STATE SHALL APPROVE ANY BONDED, INDEPENDENT AND QUALIFIED ASSURANCE ORGANIZATION THAT ISSUES AN AFFIDAVIT OR CERTIFICATION UNDER THIS SUBSECTION.

B. AN ALTERNATIVE REGISTRATION IS VALID FOR ONE YEAR AND SHALL BE RENEWED ANNUALLY WITHIN ONE HUNDRED TWENTY DAYS OF A REGISTRANT'S COMPLETED FISCAL YEAR. EACH PROFESSIONAL EMPLOYER ORGANIZATION SHALL PAY AN ALTERNATIVE REGISTRATION FEE ESTABLISHED BY THE SECRETARY OF STATE WHEN THE ALTERNATIVE REGISTRATION IS FILED OR RENEWED WITH THE SECRETARY OF STATE.

23-569. Financial capability: bonding: exception

- A. EVERY PROFESSIONAL EMPLOYER ORGANIZATION THAT IS LOCATED IN THIS STATE SHALL MAINTAIN EITHER OF THE FOLLOWING:
 - 1. A MINIMUM NET WORTH OF AT LEAST ONE HUNDRED THOUSAND DOLLARS.
- 2. A BOND, AN IRREVOCABLE LETTER OF CREDIT OR SECURITIES THAT HAVE A MINIMUM MARKET VALUE OF ONE HUNDRED THOUSAND DOLLARS. THE BOND SHALL BE HELD BY A DEPOSITORY DESIGNATED BY THE SECRETARY OF STATE IN ORDER TO SECURE THE PAYMENT OF ALL TAXES, WAGES, BENEFITS OR OTHER ENTITLEMENTS INCLUDING AMOUNTS EXPENDED BY THE INDUSTRIAL COMMISSION'S SPECIAL FUND UNDER SECTION 23-907 THAT ARE DUE TO BE PAID BY THE PROFESSIONAL EMPLOYER ORGANIZATION WITH RESPECT TO COVERED EMPLOYEES IF THE PROFESSIONAL EMPLOYER ORGANIZATION FAILS TO MAKE THE REQUIRED PAYMENTS. ANY BOND, IRREVOCABLE LETTER OF CREDIT OR SECURITIES THAT ARE DEPOSITED UNDER THIS SUBSECTION SHALL NOT BE INCLUDED FOR THE PURPOSES OF CALCULATING THE MINIMUM NET WORTH OF THE PROFESSIONAL EMPLOYER ORGANIZATION UNDER THIS SUBSECTION.
- B. THIS SECTION DOES NOT APPLY TO PROFESSIONAL EMPLOYER ORGANIZATIONS THAT FILE A LIMITED REGISTRATION UNDER SECTION 23-567.

23-570. Liability

- A. UNLESS OTHERWISE EXPRESSLY PROVIDED BY A PROFESSIONAL EMPLOYER AGREEMENT OR OTHERWISE REQUIRED BY LAW, A CLIENT:
 - 1. SHALL BE SOLELY RESPONSIBLE FOR:
- (a) THE QUALITY, ADEQUACY AND SAFETY OF THE GOODS OR SERVICES PRODUCED OR SOLD IN THE CLIENT'S BUSINESS.
- (b) DIRECTING, SUPERVISING, TRAINING AND CONTROLLING THE WORK OF COVERED EMPLOYEES WITH RESPECT TO THE BUSINESS ACTIVITIES OF THE CLIENT.
- (c) THE ACTS, ERRORS OR OMISSIONS OF COVERED EMPLOYEES WHEN DIRECTING, SUPERVISING, TRAINING AND CONTROLLING THE COVERED EMPLOYEES' WORK.
- 2. SHALL NOT BE LIABLE FOR THE ACTS, ERRORS OR OMISSIONS OF A PROFESSIONAL EMPLOYER ORGANIZATION OR ANY COVERED EMPLOYEE OF THE CLIENT AND THE PROFESSIONAL EMPLOYER ORGANIZATION IF THE COVERED EMPLOYEE IS ACTING UNDER THE EXPRESS DIRECTION AND CONTROL OF THE PROFESSIONAL EMPLOYER ORGANIZATION.

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- B. THIS SECTION DOES NOT LIMIT ANY CONTRACTUAL LIABILITY OR OBLIGATION REQUIRED UNDER A PROFESSIONAL EMPLOYER AGREEMENT OR LIMIT THE LIABILITIES AND OBLIGATIONS OF ANY PROFESSIONAL EMPLOYER ORGANIZATION OR CLIENT REQUIRED BY THIS ARTICLE.
- C. FOR THE PURPOSES OF GENERAL LIABILITY INSURANCE, FIDELITY BONDS, SURETY BONDS, EMPLOYER'S LIABILITY THAT IS NOT COVERED UNDER WORKERS' COMPENSATION AND LIQUOR LIABILITY INSURANCE THAT IS CARRIED BY THE PROFESSIONAL EMPLOYER ORGANIZATION, A COVERED EMPLOYEE IS NOT AN EMPLOYEE OF THE PROFESSIONAL EMPLOYER ORGANIZATION UNLESS THE COVERED EMPLOYEE IS SPECIFICALLY INCLUDED BY REFERENCE IN THE PROFESSIONAL EMPLOYER AGREEMENT AND APPLICABLE PREARRANGED EMPLOYMENT CONTRACT, INSURANCE CONTRACT OR BOND.

23-571. Tax obligations and incentives

- A. THIS ARTICLE DOES NOT RELIEVE A CLIENT FROM PAYING ANY TAX LIABILITY THAT IS DUE UNDER TITLE 42 OR 43.
- B. ANY TAX ON PROFESSIONAL EMPLOYER SERVICES SHALL BE LIMITED TO THE ADMINISTRATIVE FEES.
- C. FOR THE PURPOSES OF TAX CREDITS AND ANY OTHER ECONOMIC INCENTIVES PROVIDED BY THIS STATE THAT ARE BASED ON EMPLOYMENT, COVERED EMPLOYEES SHALL BE DEEMED EMPLOYEES OF EITHER THE CLIENT OR THE PROFESSIONAL EMPLOYER ORGANIZATION. EITHER THE CLIENT OR THE PROFESSIONAL EMPLOYER ORGANIZATION, BUT NOT BOTH, SHALL BE ENTITLED TO THE BENEFIT OF ANY TAX CREDIT, ECONOMIC INCENTIVE OR ANY OTHER BENEFIT RESULTING FROM THE EMPLOYMENT OF COVERED EMPLOYEES OF THE CLIENT. IF THE AMOUNT OF ANY CREDIT OR INCENTIVE IS BASED ON THE NUMBER OF EMPLOYEES, ONLY THE COVERED EMPLOYEES WHO ACTUALLY WORK FOR THE CLIENT SHALL BE CONSIDERED EMPLOYED AND THE COVERED EMPLOYEES WHO WORK FOR OTHER CLIENTS OF THE PROFESSIONAL EMPLOYER ORGANIZATION SHALL NOT BE CONSIDERED.

23-572. Services not insurance

A REGISTRANT UNDER THIS ARTICLE IS NOT ENGAGED IN THE SALE OF INSURANCE BY OFFERING, MARKETING, SELLING, ADMINISTERING OR PROVIDING PROFESSIONAL EMPLOYER ORGANIZATION SERVICES OR EMPLOYEE BENEFIT PLANS FOR COVERED EMPLOYEES.

23-573. Rights: duties

- A. COVERED EMPLOYEES MAY ENFORCE THOSE RIGHTS AGAINST A PROFESSIONAL EMPLOYER ORGANIZATION THAT ARE ALLOCATED TO THE PROFESSIONAL EMPLOYER ORGANIZATION OR THAT ARE SHARED BETWEEN THE PROFESSIONAL EMPLOYER ORGANIZATION AND THE CLIENT UNDER A PROFESSIONAL EMPLOYER AGREEMENT OR THIS ARTICLE.
- B. ANY OTHER RIGHTS, DUTIES OR OBLIGATIONS THAT ARE ENFORCEABLE BY AN EMPLOYEE UNDER THE LAWS OF THIS STATE SHALL REMAIN ENFORCEABLE AGAINST THE CLIENT.

23-574. <u>Licensing: application</u>

A. A COVERED EMPLOYEE WHO IS REQUIRED TO BE LICENSED, REGISTERED OR CERTIFIED UCDER THE LAWS OF THIS STATE SHALL BE DEEMED AN EMPLOYEE OF THE

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 CLIENT FOR PURPOSES OF THE LICENSE, REGISTRATION OR CERTIFICATION REQUIREMENT.

- B. A PROFESSIONAL EMPLOYER ORGANIZATION SHALL NOT BE DEEMED TO BE ENGAGED IN ANY OCCUPATION, TRADE, PROFESSION OR OTHER ACTIVITY THAT IS SUBJECT TO LICENSING, REGISTRATION OR CERTIFICATION REQUIREMENTS UNDER THE LAWS OF THIS STATE SOLELY ON THE BASIS OF ENTERING INTO AND MAINTAINING A CO-EMPLOYMENT RELATIONSHIP WITH A COVERED EMPLOYEE WHO IS REQUIRED TO BE REGULATED OR CERTIFIED.
- C. UNLESS OTHERWISE EXPRESSLY AGREED TO BY A CLIENT IN A PROFESSIONAL EMPLOYMENT AGREEMENT, A CLIENT SHALL MAINTAIN THE RIGHT TO DIRECT AND CONTROL THE PROFESSIONAL OR LICENSED ACTIVITIES OF THE COVERED EMPLOYEES AND THE CLIENT'S BUSINESS.

23-575. Violations: classification: civil penalties: rules

- A. A PERSON WHO OFFERS TO PROVIDE OR ACTUALLY PROVIDES PROFESSIONAL EMPLOYER SERVICES OR USES THE NAME PROFESSIONAL EMPLOYER ORGANIZATION, STAFF LEASING, EMPLOYEE LEASING OR ADMINISTRATIVE EMPLOYEE OR ANY OTHER TITLE REPRESENTING A PROFESSIONAL EMPLOYER SERVICE WITHOUT FIRST REGISTERING WITH THE SECRETARY OF STATE PURSUANT TO SECTION 23-563 IS GUILTY OF A CLASS 1 MISDEMEANOR.
- B. A PERSON WHO KNOWINGLY PROVIDES FALSE OR FRAUDULENT INFORMATION TO THE SECRETARY OF STATE UNDER THIS ARTICLE IS GUILTY OF A CLASS 1 MISDEMEANOR.
- C. A PERSON WHO IS A CONTROLLING PERSON OF A PROFESSIONAL EMPLOYER ORGANIZATION AND WHO COLLECTS PAYMENTS FROM A CLIENT REPRESENTING WAGES, TAXES, BENEFIT PAYMENTS OR INSURANCE PAYMENTS AND FAILS TO REMIT THE FUNDS TO THE APPROPRIATE GOVERNMENT OR PRIVATE ENTITY WITHIN A REASONABLE TIME IS GUILTY OF THEFT AS PROVIDED IN SECTION 13-1802.
- D. A PERSON WHO IS A CONTROLLING PERSON OF A CLIENT OF A PROFESSIONAL EMPLOYER ORGANIZATION AND WHO FRAUDULENTLY OR FALSELY PROCURES OR ATTEMPTS TO PROCURE SERVICES OR BENEFITS FROM A REGISTERED PROFESSIONAL EMPLOYER ORGANIZATION WITHOUT HAVING MONIES THAT ARE ADEQUATE TO COMPENSATE THE PROFESSIONAL EMPLOYER ORGANIZATION IS GUILTY OF A CLASS 4 FELONY.
- E. IF A PERSON WILFULLY FAILS TO COMPLY WITH ANY REQUIREMENT OF THIS ARTICLE, KNOWINGLY MAKES A MATERIAL MISREPRESENTATION TO THE SECRETARY OF STATE, VIOLATES SUBSECTION A, B OR C OF THIS SECTION OR IS GUILTY OF AN OFFENSE RELATING TO THE OPERATION OF A PROFESSIONAL EMPLOYER ORGANIZATION, THE SECRETARY OF STATE:
- 1. SHALL IMPOSE A CIVIL PENALTY NOT TO EXCEED ONE THOUSAND DOLLARS AGAINST THE PERSON FOR EACH VIOLATION. THE SECRETARY OF STATE SHALL DEPOSIT, PURSUANT TO SECTIONS 35-146 AND 35-147, PENALTIES COLLECTED PURSUANT TO THIS PARAGRAPH IN THE STATE GENERAL FUND.
 - 2. MAY DENY AN APPLICATION FOR REGISTRATION.
 - 3. MAY REVOKE, RESTRICT OR REFUSE TO RENEW A REGISTRATION.
- 4. MAY PLACE A REGISTRANT ON PROBATION FOR A PERIOD OF TIME DETERMINED BY RULES ADOPTED BY THE SECRETARY OF STATE.

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F. THE SECRETARY OF STATE SHALL ADOPT RULES FOR HEARINGS AND PENALTIES FOR VIOLATIONS OF THIS ARTICLE OR RULES ADOPTED UNDER THIS ARTICLE.

23-576. Professional employer organization fund: use: exemption

- A. THE PROFESSIONAL EMPLOYER ORGANIZATION FUND 'S ESTABLISHED CONSISTING OF FEES COLLECTED PURSUANT TO THIS ARTICLE. THE SECRETARY OF STATE SHALL ADMINISTER THE FUND.
- B. MONIES IN THE FUND ARE SUBJECT TO LEGISLATIVE APPROPRIATION AND SHALL BE USED BY THE SECRETARY OF STATE FOR THE PURPOSES OF ADMINISTERING THIS ARTICLE.
- C. MONIES IN THE FUND ARE EXEMPT FROM THE PROVISIONS OF SECTION 35-190 RELATING TO LAPSING OF APPROPRIATIONS.
 - Sec. 2. Section 23-614, Arizona Revised Statutes, is amended to read: 23-614. Employing unit: temporary services employer: leasing employer: definitions
- A. "Employing unit" means an individual or type of organization, including a partnership, association, trust, estate, joint-stock company, insurance company or corporation, whether domestic or foreign, or the receiver, trustee in bankruptcy, trustee or successor of any of the foregoing, or the legal representative of a deceased person, which has, or subsequent to January 1, 1936 had, one or more individuals performing services for it within this state. Effective January 1, 1962, "employing unit" shall include any federal instrumentality which is neither wholly nor partially owned by the United States and which has one or more individuals performing services for it within this state.
- B. All individuals performing services within this state for an employing unit which maintains two or more separate establishments within this state shall be deemed to be performing services for a single employing unit for all the purposes of this chapter.
- C. Each individual employed to perform or to assist in performing the work of any person in the service of an employing unit shall be deemed to be engaged by the employing unit for all the purposes of this chapter, whether the individual was hired or paid directly by the employing unit or by such person, provided the employing unit had actual or constructive knowledge of the work. Notwithstanding any other provision of this chapter except for the provisions of section 23-612.01, an individual who performs services in or for a particular employing unit shall not be deemed to be in the employment of such employing unit if such individual's wages for services in or for the particular employing unit are paid by another employing unit, and if the contributions required by this chapter on such wages are paid by such other employing unit.
- D. Notwithstanding any other provision of this chapter, whether an individual or entity is the employer of specific employees shall be determined by section 23-613.01, except as provided in subsections E and G of this section with respect to a leasing PROFESSIONAL employer ORGANIZATION or a temporary services employer.

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- E. A leasing PROFESSIONAL employer ORGANIZATION or a temporary services employer that contracts to supply a worker to perform services for a customer or client is the employer of the worker who performs the services. A customer or client who contracts with an individual or entity that is not a leasing PROFESSIONAL employer ORGANIZATION or a temporary services employer to engage a worker to perform services is the employer of the worker who performs the services. Except as provided in subsection F of this section, an individual or entity that is not a leasing PROFESSIONAL employer nor ORGANIZATION OR a temporary services employer, that contracts to supply a worker to perform services to a customer or client and that pays remuneration to the worker acts as the agent of the employer for purposes of payment of remuneration.
- F. In circumstances that are in essence a loan of an employee to another employer and the direction and control of the manner and means of performing the services changes to the employer to whom the employee is loaned, the loaning employer continues to be the employer of the employee if the loaning employer continues to pay remuneration to the employee, whether or not reimbursed by the other employer. If the employer to whom the employee is loaned pays remuneration to the employee for the services performed, that employer is considered the employer for the purposes of any remuneration paid to the employee by the employer, regardless of whether the loaning employer also pays remuneration to the employee.
- G. A PROFESSIONAL EMPLOYER ORGANIZATION SHALL REPORT AND PAY ALL REQUIRED CONTRIBUTIONS TO THE UNEMPLOYMENT COMPENSATION FUND USING THE STATE EMPLOYER ACCOUNT NUMBER AND THE CONTRIBUTION RATE OF THE PROFESSIONAL EMPLOYER ORGANIZATION.
- H. ON TERMINATION OF A CONTRACT BETWEEN A PROFESSIONAL EMPLOYER ORGANIZATION AND A CLIENT OR THE FAILURE BY A PROFESSIONAL EMPLOYER ORGANIZATION TO SUBMIT REPORTS OR MAKE TAX PAYMENTS AS REQUIRED BY THIS CHAPTER, THE CLIENT SHALL BE TREATED AS A NEW EMPLOYER WITHOUT A PREVIOUS EXPERIENCE RECORD IF THE CLIENT HAS BEEN SUBJECT TO A PROFESSIONAL EMPLOYER AGREEMENT FOR AT LEAST TWO YEARS OR IF THE CLIENT IS NOT OTHERWISE ELIGIBLE FOR AN EXPERIENCE RATING.
 - G. I. For THE purposes of this section: , "leasing employer" or
- 1. "PROFESSIONAL EMPLOYER ORGANIZATION" HAS THE SAME MEANING PRESCRIBED IN SECTION 23-561.
- 2. "Temporary services employer" means an employing unit that contracts with clients or customers to supply workers to perform services for the client or customer and that performs all of the following:
- $\frac{1}{1}$ (a) Negotiates with clients or customers for such matters as the time of work, the place of work, the type of work, the working conditions, the quality of services and the price of services.
- 2. (b) Determines assignments or reassignments of workers, even though workers retain the right to refuse specific assignments.

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- 1 2 3
- 3. (c) Retains the authority to assign or reassign a worker to other clients or customers if a worker is determined unacceptable by a specific client or customer. 4. (d) Assigns or reassigns the worker to perform services for a
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- APPROVED BY THE GOVERNOR APRIL 25, 2005.
- FRED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 25, 2005.

negotiation.

client or customer.

5. (e) Sets the rate of pay of the worker, whether or not through

6. (f) Pays the worker from its own account or accounts. 7. (g) Retains the right to hire and terminate workers.

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Passed the House April 12, 2005,	Passed the Senate March 23, 20 05,
by the following vote:39 Ayes,	by the following vote: Ayes,
Nays, Not Voting	
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	OFFICE OF SECRETARY OF STATE
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S.B. 1472	this day of, 20,
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Secretary of State

SENATE CONCURS IN HOUSE AMENDMENTS AND FINAL PASSAGE

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